DIGICORP
Form 10QSB
August 21, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT FOR THE TRANSITION PERIOD FROM __________ TO __________
COMMISSION FILE NUMBER ________________________________

DIGICORP
(Exact name of small business issuer in its charter)

UTAH	87-0398271
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4143 Glencoe Avenue, Marina Del Rey, CA 90292
(Address of principal executive offices)

Issuer's telephone Number: (310) 728-1450

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [_] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 14, 2006, the issuer had 37,239,002 outstanding shares of Common Stock, $.001 par value.

Transitional Small Business Disclosure Format (check one): Yes [_] No [X]

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

DIGICORP

Condensed Consolidated Balance Sheets (Unaudited)

	June 30, 2006	December 3 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,956	$ 54,51
Accounts receivable, net	73,630	64,40
Inventories	136,204	130,16
Other current assets	250,417	253,63
TOTAL CURRENT ASSETS	483,207	502,72
Other long term assets	--	48,92
Property and equipment, net	259,533	83,01
Intangible assets, net	922,799	796,25
TOTAL ASSETS	$ 1,665,539	$ 1,430,92

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 381,424	$ 189,09
Accrued liabilities	216,050	128,14
Revolving credit line - related party	50,000	-
Note payable - related party	73,000	73,00
Deferred revenue	80,211	80,21
TOTAL CURRENT LIABILITIES	800,685	470,45
LONG TERM LIABILITIES		
Convertible note payable - related party	556,307	556,30
Debt discount - beneficial conversion feature	(174,324)	(193,69
TOTAL LONG TERM LIABILITIES	381,983	362,61
TOTAL LIABILITIES	1,182,668	833,06
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value: 50,000,000 shares authorized; 37,239,002 shares issued and outstanding as of June 30, 2006; 36,737,184 shares issued and outstandingat December 31, 2005	37,239	36,73
Paid-in capital	3,217,078	958,98
Accumulated deficit	(2,771,446)	(397,86
TOTAL STOCKHOLDERS' EQUITY	482,871	597,85
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,665,539	$ 1,430,92

The accompanying notes are an integral part of these condensed consolidated financial statements.

1

DIGICORP

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended		Six Mo
	June 30, 2006	June 30, 2005	June 30, 2006
REVENUE			

Sales	$ 224,279	$ 1,039	$ 667,79
Licensing fees	--	41,946	-
Total revenue	224,279	42,985	667,79
OPERATING EXPENSES			
Cost of sales	157,844	7,559	419,13
Selling, general and administrative expenses	1,312,094	68,398	2,621,44
Total operating expenses	1,469,938	75,957	3,040,58
LOSS BEFORE INCOME TAXES	(1,245,659)	(32,972)	(2,372,78
PROVISION FOR INCOME TAXES	--	--	80
NET LOSS	$ (1,245,659)	$ (32,972)	$ (2,373,58
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.03)	$ (0.00)	$ (0.0
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	37,193,637	15,530,104	37,056,97

The accompanying notes are an integral part of these condensed consolidated financial statements.

DIGICORP

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Month June 30, 2006
Cash flows from operating activities:	
Net loss	$(2,373,584)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	3,101
Amortization of licenses	67,056
Amortization of debt discount	19,369
Stock-based compensation to employees and directors	1,669,077
Stock-based compensation to consultants	4,121
Changes in operating assets and liabilities:	

Accounts receivable	(9,222)
Inventories	(6,036)
Other current assets	33,216
Other long term assets	48,922
Accounts payable and accrued liabilities	280,234
Deferred revenue	--
Net cash used in operating activities	(263,746)
Cash flows from investing activities:	
Purchases of licenses and developed content	(128,599)
Proceeds from disposal of licenses	65,000
Purchases of property and equipment	(27,617)
Net cash used in investing activities	(91,216)
Cash flows from financing activities:	
Proceeds from issuance of common stock	273,400
Proceeds from revolving credit line - related party	50,000
Proceeds from related party note	--
Net cash provided by financing activities	323,400
Net decrease in cash and cash equivalents	(31,562)
Cash and cash equivalents at beginning of period	54,518
Cash and cash equivalents at end of period	$ 22,956
Supplemental disclosures of cash flow information:	
Income taxes	$ 1,200
Interest paid	$ --
Non-cash investing and financing activity:	
Acquisition of intangible assets for common stock	$ 160,000
Acquisition of fixed assets for common stock	$ 152,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

DIGICORP
Notes to Condensed Consolidated Financial Statements - Unaudited
June 30, 2006

1. DESCRIPTION OF BUSINESS

Digicorp ("the Company") was organized under the laws of the State of Utah on July 19, 1983. On July 1, 1995, the Company became a development stage enterprise as defined in Statements of Financial Accounting Standards ("SFAS") No. 7 when it sold its assets and changed its business plan. On December 29, 2005, the Company ceased being a development stage enterprise when it acquired all of the issued and outstanding capital stock of Rebel Crew Films, Inc., a California corporation ("Rebel Crew Films"), pursuant to a reverse merger transaction (see note 4).

Rebel Crew Films operates as a wholly-owned operating subsidiary of the Company. Rebel Crew Films was organized under the laws of the State of California on August 7, 2002 to distribute Latino home entertainment products. Rebel Crew Films distributes Spanish language films and serves wholesale, retail, catalog, and e-commerce accounts. Rebel Crew Film's titles can be found at major retail outlets and independent video outlets across the United States of America and Canada.

The Company, including its operating subsidiary, generated revenue through the direct sales of licensed content and licensing agreements with third parties that distributed the Company's licensed content. The Company is expanding its sales force to focus on direct sales of its licensed content and intends to significantly reduce or eliminate future licensing agreements with third parties.

The Company is organized in a single operating segment. All of the Company's revenues are generated in the United States, and the Company has no long-lived assets outside the United States.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements do not include all the information and disclosures required by accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The actual results may differ from management's estimates.

The interim condensed consolidated financial information is unaudited, but reflects all normal adjustments that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. The condensed consolidated balance sheet as of December 31, 2005, was derived from the Company's audited financial statements. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2006. The condensed interim consolidated financial statements should be read in connection with the Company's audited financial statements for the year ended December 31, 2005.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Rebel Crew Films. All significant intercompany accounts and transactions have been eliminated in consolidation.

DIGICORP
Notes to Condensed Consolidated Financial Statements - Unaudited (continued)
June 30, 2006

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. At June 30, 2006, the Company has an accumulated deficit of approximately $2.8 million and a working capital deficit of $317,000, which includes a deferred revenue balance of $80,000, as discussed below. During the six months ended June 30, 2006, the Company incurred a loss of approximately $2.4 million. During the six months ended June 30, 2006, the Company primarily relied upon revenues generated from the direct sales of its Latino home entertainment content and on debt and equity investments to fund its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management is currently seeking additional financing and believes, however no assurances can be made, that these avenues will continue to be available to the Company to fund its operations. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation Number 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109. The interpretation contains a two step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. Effective for the Company beginning January 1, 2007, FIN 48 is not expected to have any impact on the Company's financial position, results of operations or cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable are recorded at the invoice amount and do not bear interest. Accounts receivable at June 30, 2006 and December 31, 2005 are presented net of an allowance for doubtful accounts of $25,000 and $15,000, respectively.

4. RECAPITALIZATION

On December 29, 2005, the Company completed the acquisition of Rebel Crew Films. Pursuant to the stock purchase agreement, the Company acquired all of the outstanding equity stock of Rebel Crew Films from the Rebel Crew Films Shareholders. As consideration for the acquisition the Company agreed to issue 21,207,080 shares of the Company's common stock (the "Purchase Price") to the shareholders of Rebel Crew Films.

Following completion of the acquisition the Company's previous shareholders owned 15,530,104 common shares and Rebel Crew Films shareholders owned 21,207,080, or approximately 57.7% of the outstanding shares of the Company's common stock. For accounting purposes the transaction is considered to be a recapitalization where Digicorp is the surviving legal entity, and Rebel Crew Films is considered to be the accounting acquirer. Accordingly, the historical financial statements prior to December 29, 2005 are those of Rebel Crew Films. Following the acquisition, Digicorp changed its fiscal year end from June 30 to

December 31.

DIGICORP
Notes to Condensed Consolidated Financial Statements - Unaudited (continued)
June 30, 2006

5. OTHER CURRENT ASSETS

The Company has an agreement with Sichenzia Ross Friedman Ference LLP ("Sichenzia") for legal representation that extends through March 31, 2007. In consideration for Sichenzia's services, the Company agreed to a fixed fee of $50,000 and to issue Sichenzia 500,000 shares of the Company's common stock. The common stock issued to Sichenzia was valued at $325,000 and is being amortized over the term of the agreement. At June 30, 2006, the unamortized balance is $147,000 and is included in other current assets. The remaining balance recorded in other current assets relates to an amount due the Company for reimbursable expenses from a related party of $21,000, a receivable from the disposal of certain licenses of $30,000, security deposits of $31,000, and other items which amount to $21,000.

6. INTANGIBLE ASSETS

Intangible assets consist of capitalized license fees for licensed content the Company acquired from owners including producers, studios and distributors as well as the Company's iCodemedia and Perreoradio suite of websites and internet properties and all related intellectual property (the "iCodemedia Assets").

The Perreoradio suite of websites consists of the following Internet domain names and all materials, intellectual property, goodwill and records in connection therewith: Perreoradio.com, Radioperreo.com, Perreomobile.com, Perreotv.com, Puroperreo.com, Puroreggaeton.com, Purosandungueo.com, Sandungueoradio.com, Machetemusic.net, Machetemusic.org, Machetemusica.com and Musicamachete.com. As consideration for the Perreoradio Assets, the Company issued an aggregate of 100,000 shares of its common stock valued at $160,000.

The iCodemedia suite of websites consists of the websites www.icodemedia.com, www.iplaylist.com, www.tunecast.com, www.tunebucks.com, www.podpresskit.com and www.tunespromo.com. The Company intends to use these websites to provide a suite of applications and services to enable content creators to publish and deliver content to existing and next generation devices. The iCodemedia Assets are presently under development. As consideration for the iCodemedia Assets, the Company issued 1,000,000 shares of its common stock valued at $300,000.

The Perreoradio and iCodemedia Assets were determined to have an indefinite useful life based primarily on the renewability of the proprietary domain names. Intangible assets with an indefinite life are not subject to amortization, but will be subject to periodic evaluation for impairment

Licensed content acquired is capitalized at the time of purchase. The term of the licensed content agreements usually vary between one to five years (the "Title Term"). At the end of the Title Term, the Company generally has the option of discontinuing distribution of the title or extending the Title Term.

The Company amortizes the capitalized license fees, on a straight line basis over the Title Term. During the six months ended June 30, 2006 and 2005, amortization expense related to the licensed content was $67,000 and $56,000, respectively.

6

DIGICORP
Notes to Condensed Consolidated Financial Statements - Unaudited (continued)
June 30, 2006

Intangible assets and accumulated amortization at June 30, 2006 and December 31, 2005 are comprised of the following:

	June 30, 2006	December 31, 2005
iCodemedia Assets	$ 300,000	$ 300,000
Perreoradio Assets	160,000	--
Licensed and developed content	719,599	686,000
Less: accumulated amortization	(256,800)	(189,744)
Intangible assets, net	$ 922,799	$ 796,256

7. INCOME (LOSS) PER COMMON SHARE

Income (loss) per common share is based on the weighted average number of common shares outstanding. The Company complies with SFAS No. 128, "Earnings Per Share," which requires dual presentation of basic and diluted earnings per share on the face of the statements of operations. Basic per share earnings or loss excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average common shares outstanding for the period. Diluted per share earnings or loss reflects the potential dilution that could occur if convertible preferred stock or debentures, options and warrants were to be exercised or converted or otherwise resulted in the issuance of common stock that then shared in the earnings of the entity.

Options and warrants issued pursuant to our Stock Option Plan and warrants that were issued outside our Stock Option Plan which were outstanding as of June 30, 2006 to purchase 8,762,500 and 550,000 shares of common stock, respectively, and 500,000 shares issuable upon conversion of an outstanding convertible note were not included in the computation of diluted net loss per common share for the three and six months ended June 30, 2006, as their inclusion would have been antidilutive. At June 30, 2005 there were no outstanding options, warrants or convertible notes.

8. ACCRUED LIABILITIES

Accrued liabilities at June 30, 2006 and December 31, 2005 are comprised of the following:

	June 30, 2006	December 31, 2005
Obligations on license agreements	$ 86,100	$ 58,500
Accrued salaries	112,500	37,500
Accrued professional fees	--	29,000

Accrued interest	15,105	--
Income taxes payable	--	800
Other	2,345	2,345
	$ 216,050	$ 128,145

9. CONVERTIBLE NOTE PAYABLE - RELATED PARTY

In connection with the acquisition of Rebel Crew Films on December 29, 2005, the Company entered into a Securities Purchase Agreement with one of the shareholders of Rebel Crew Films, Rebel Holdings, LLC, a California limited liability company ("Rebel Holdings"), pursuant to which the Company purchased a $556,000 principal amount loan receivable owed by Rebel Crew Films to Rebel Holdings, LLC in exchange for the issuance of a $556,000 principal amount secured convertible note to Rebel Holdings, LLC. The secured convertible note accrues simple interest at the rate of 4.5%, matures on December 29, 2010 and is secured by all of the Company's assets now owned or hereafter acquired. The secured convertible note is convertible into 500,000 shares of the Company's common stock at the rate of $1.112614 per share. Jay Rifkin, the Company's Chief Executive Officer and a director, is the sole managing member of Rebel Holdings, LLC.

As the effective conversion price of the note on the date of issuance was below the fair market value of the underlying common stock, the Company recorded debt discount in the amount of $194,000 based on the intrinsic value of the beneficial conversion feature of the note. The debt discount recorded as a result of the beneficial conversion feature will be amortized as non-cash interest expense over the term of the debt. During the three and six months ended June 30, 2006, interest expense of $19,000 and $10,000, respectively, has been recorded from the debt discount amortization, and as of June 30, 2006, the remaining debt discount balance attributable to the beneficial conversion feature was $174,000.

10. REVOLVING LINE OF CREDIT AGREEMENT - RELATED PARTY

Revolving Line of Credit Agreement

Effective March 23, 2006 the Company entered into a Revolving Line of Credit Agreement (the "Revolving Line of Credit") with Ault Glazer Bodnar Acquisition Fund, LLC ("AGB Acquisition Fund"). The Revolving Line of Credit allows the Company to request advances totaling an aggregate of up to $150,000 from AGB Acquisition Fund. The initial term of the Revolving Line of Credit is for a period of six months and may be extended for one or more additional six-month periods upon mutual agreement of the parties. At June 30, 2006, the Company had borrowed $50,000 against the Revolving Line of Credit and incurred interest expense of $600. The Company's Chief Financial Officer is also the Chief Financial Officer of AGB Acquisition Fund.

11. STOCK BASED COMPENSATION

Effective July 20, 2005, the Board of Directors of the Company approved the 2005 Stock Option and Restricted Stock Plan (the "2005 Plan"). The Plan reserves

15,000,000 shares of common stock for grants of incentive stock options, nonqualified stock options, warrants and restricted stock awards to employees, non-employee directors and consultants performing services for the Company. Options and warrants granted under the Plan have an exercise price equal to or greater than the fair market value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. The options expire 10 years from the date of grant whereas warrants generally expire 5 years from the date of grant. Restricted stock awards granted under the Plan are subject to a vesting period determined at the date of grant.

The Company accounts for stock-based compensation awards in accordance with the provisions of SFAS No. 123(R), Share-Based Payment, which addresses the accounting for employee stock options. SFAS 123(R) requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements over the vesting period based on the estimated fair value of the awards. The Company adopted SFAS 123(R) as of January 1, 2005. Prior to the adoption date, there were no stock options or other equity-based compensation awards outstanding.

A summary of stock option activity for the six months ended June 30, 2006 is presented below:

		Outstanding Options		
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weight Avera Remain Contrac Life (y
December 31, 2005	6,687,500	8,312,500	$ 0.75	
Grants	(450,000)	450,000	$ 1.54	
June 30, 2006	6,237,500	8,762,500	$ 0.79	
Options exercisable at:				
December 31, 2005		2,137,500	$ 0.25	
June 30, 2006		2,141,667	$ 0.25	

All outstanding stock-based compensation awards were granted by the Company at the per share fair market value on the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. For options granted during the six months ended June 30, 2006, the following assumptions were used: volatility 143% to 155%; expected life 5 years; risk-free interest rate 3.75%; dividend yield 0%.

During the three and six months ended June 30, 2006 stock-based compensation totaling $778,000 and $1,669,000, respectively, was recorded by the Company. As of June 30, 2006, total unrecognized compensation cost related to unvested stock options was $3,606,000.

12. EQUITY TRANSACTIONS

During February 2006, the Company entered into a Subscription Agreement with several accredited investors, relating to the issuance and sale by the Company of shares of its common stock (the "Shares"). The Company received gross proceeds of $235,000 from the issuance of 213,636 Shares at a price of $1.10 per share.

During April 2006, the Company entered into a Subscription Agreement with its Chief Financial Officer relating to the issuance and sale by the Company of shares of its common stock. The Company received gross proceeds of $55,000 from the issuance of 50,000 Shares at a price of $1.10 per share.

On April 24, 2006, the Company purchased a software application known as ITunesBucks and its associated assets therewith (the "Assets") from EAI Technologies, LLC, a Virginia corporation. As consideration for the Assets, the Company issued EAI Technologies an aggregate of 138,182 shares of its common stock. The cost of the software application, which was valued at $152,000, was recorded as capitalized software. Capitalized software is depreciated over its estimated useful life when development is complete.

13. WARRANTS

During 2005, the Company issued a total of 550,000 warrants to purchase shares of common stock at prices ranging from $0.145 to $0.65 per share to consultants. No warrants, other than warrants that were issued pursuant to the 2005 Plan, were issued by the Company during the six months ended June 30, 2006.

The following table summarizes information about common stock warrants outstanding at June 30, 2006:

Outstanding				Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weig Ave Exercis
$ 0.10 - 0.25	250,000	5.00	$ 0.145	250,000	$
$ 0.50 - 0.75	300,000	4.75	0.65	300,000	
$ 0.10 - 0.75	550,000	4.86	$ 0.42	550,000	$

14. RELATED PARTY TRANSACTIONS

At June 30, 2006 and December 31, 2005 the Company has a liability of $73,000 due to the sole member of Rebel Holdings, LLC, a California limited liability company ("Rebel Holdings"), an entity whose sole managing member is the Company's Chief Executive Officer that owned approximately 52% of the outstanding shares of the Company's common stock at June 30, 2006. In connection with the borrowings, the Company issued a promissory note in the amount of $73,000 to the member (the "Note") on December 29, 2005. The monies loaned by the member to the Company were utilized to pay for certain capitalized license agreements and operating expenses of the Company. The Note has a term of approximately six months and bears 5.0% simple interest.

Other current assets at June 30, 2006 includes $21,000 owed to the Company by Ault Glazer Bodnar & Company, Inc. ("AGB & Company") based on an agreement to reimburse the Company for salaries paid in connection with the recapitalization of the Company. The Company's Chief Financial Officer is also the Chief Financial Officer of AGB & Company.

15. SUBSEQUENT EVENTS

On July 13, 2006, William Horne, the Company's Chief Financial Officer, loaned the Company $5,000. As consideration for the loan, the Company issued Mr. Horne a demand promissory note at a rate equal to the prime rate published in The Wall Street Journal from time to time to the date of payment in full.

From July 14, 2006 through August 16, 2006, Jay Rifkin, the Company's Chairman and Chief Executive Officer, loaned the Company a total of $135,000. As consideration for the loans, the Company issued Mr. Rifkin demand promissory notes at a rate equal to the prime rate published in The Wall Street Journal from time to time to the date of payment in full.

Item 2. Management's Discussion and Analysis or Plan of Operation.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto contained elsewhere in this Form 10-QSB. This discussion contains forward-looking statements that involve risks and uncertainties. All statements regarding future events, our future financial performance and operating results, our business strategy and our financing plans are forward-looking statements. In many cases, you can identify forward-looking statements by terminology, such as "may," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such terms and other comparable terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause our actual results to differ materially from those projected in any forward-looking statements. In evaluating these statements, you should specifically consider various factors, including, but not limited to, those set forth under "Risk Factors" appearing at the end of this Management's Discussion and Analysis ("MD&A").

The following "Overview" section is a brief summary of the significant issues addressed in this MD&A. Investors should read the relevant sections of the MD&A for a complete discussion of the issues summarized below. The entire MD&A should be read in conjunction with Item 1. Financial Statements.

OVERVIEW

On June 30, 1995, Digicorp, a Utah corporation, (referred to herein as the "Company," "we," "us," and "our") became a development stage enterprise when we sold our assets. Until September 19, 2005 we had no operations other than issuing shares of common stock for financing the preparation of financial statements and for preparing filings for the SEC.

On September 19, 2005, we entered into an asset purchase agreement with Philip Gatch, our Chief Technology Officer, and thereby completed the purchase of certain assets from Mr. Gatch consisting of the iCodemedia suite of websites and internet properties and all related intellectual property (the "iCodemedia Assets"). The iCodemedia suite of websites consists of the websites www.icodemedia.com, www.iplaylist.com, www.tunecast.com, www.tunebucks.com, www.podpresskit.com and www.tunespromo.com.

On December 29, 2005, we acquired all of the issued and outstanding capital stock of Rebel Crew Films in consideration for the issuance of 21,207,080 shares of common stock to the shareholders of Rebel Crew Films. Rebel Crew Films was organized under the laws of the State of California on August 7, 2002 to distribute Latino home entertainment products. Rebel Crew Films currently maintains approximately 300 Spanish language films and plans to serve the nation's largest wholesale, retail, catalog, and e-commerce accounts.

On February 7, 2006, we entered into an asset purchase agreement pursuant to which we purchased the following Internet domain names and all materials, intellectual property, goodwill and records in connection therewith (the "Perreoradio Assets"): Perreoradio.com, Radioperreo.com, Perreomobile.com, Perreotv.com, Puroperreo.com, Puroreggaeton.com, Purosandungueo.com, Sandungueoradio.com, Machetemusic.net, Machetemusic.org, Machetemusica.com and Musicamachete.com.

We are primarily engaged in the business of developing, marketing and distributing programming content, multi-media technologies, and advertising via the internet. We expect that we will expand our advertising to video and music-on-demand ("VOD"), and other alternative music and video programming formats in the United States and internationally. We will focus a significant amount of our available resources to obtain the exclusive distribution rights for additional content through development, acquisition or licensing arrangements.

We currently generate the majority our revenue through direct sales of our film content. In the past we generated the majority of our revenue from licensing agreements which consisted of three to five-year contracts that carried a 15% - 50% royalty on gross sales of licensed product. We are currently expanding our sales force to focus on direct sales of our licensed content and expect to see a significant shift in revenues, which have historically been predominately from licensing agreements, to direct sales.

Our primary operations are conducted through our wholly owned subsidiary: Rebel Crew Films, Inc. In addition, we have focused and will continue to focus development efforts in our Perreoradio and iCodemedia Assets.

Our goal is to become a leading distributor of Latino home entertainment products. Our products are developed to target Spanish speaking consumers who increasingly demand new Latino content and classic Spanish language movies. We offer producers and content-providers a flexible option to the larger Hollywood studio distributors and have emerged as a company that attracts premiere home entertainment products.

We currently maintain and distribute approximately 300 Spanish language films. Our titles can be found at Wal-Mart, Best Buy, Blockbuster, K-Mart, and hundreds of independent video outlets across the United States of America and Canada. Our diverse programming includes: new releases, classic Mexican cinema, animation, cult, sports, martial arts, family entertainment, and more.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The below discussion and analysis of our financial condition and results of operations is based upon the accompanying financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. Our most critical accounting policies relate to the determination of stock based compensation, revenue recognition and the assessment of impairment of our intangible assets.

Stock-Based Compensation

The Company accounts for stock-based compensation awards in accordance with the provisions of SFAS No. 123(R), Share-Based Payment, which addresses the accounting for employee stock options. SFAS 123(R) revises the disclosure provisions of SFAS 123 and supercedes APB Opinion No. 25. SFAS 123(R) requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements over the vesting period based on the estimated fair value of the awards. This statement is effective for the Company as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company adopted SFAS 123(R) as of January 1, 2005.

Revenue Recognition

The Company generates revenue through either the direct sales of licensed content or through licensing agreements whereby the Company receives advance payments as consideration for rights granted to third parties that distribute the Company's licensed content. Revenues from direct sales are recorded upon shipment. Advance payments received under licensing agreements are initially recorded as deferred revenue. The Company recognizes revenue under its licensing agreements as royalties are earned upon shipment of licensed content to customers by the sub-licensor. The Company may be entitled to receive additional royalty payments under the licensing agreements, but only to the extent that royalties calculated under the terms of the licensing agreements exceed the amount of the advance payments.

Intangible Assets

The Company accounts for intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", which provides accounting and reporting standards for acquired intangible assets. Under SFAS No. 142, goodwill and other intangible assets with indefinite useful lives are no longer amortized but tested for impairment at least annually. The Company will perform an impairment test on all intangible assets, in accordance with the guidance provided by SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets", at least annually, unless events and circumstances indicate that such assets might be impaired.

LIQUIDITY AND CAPITAL RESOURCES

Our total assets were $1,666,000 at June 30, 2006 versus $1,431,000 at December 31, 2005. The change in total assets is primarily attributable to increases in property and equipment of $177,000 and intangible assets of $127,000.

The increase in property and equipment is primarily attributed to our April 24, 2006, purchase of a software application known as ITunesBucks and its associated assets therewith (the "Assets") from EAI Technologies, LLC, ("EAI") a Virginia corporation. As consideration for the Assets, we issued EAI an aggregate of 138,182 shares of our common stock valued at $152,000. Such amount represented both the cost to develop ITunesBucks as well as the April 24, 2006 closing price of our common stock, $1.10 per common share, as reported on OTC Bulletin Board.

The increase in intangible assets is due to both the acquisition of additional licensed content as well as our acquisition of the Perreoradio suite of websites. During the six months ended June 30, 2006, we acquired additional licensed content for $110,000 and produced our first music video for $18,000. These increases were offset by the amortization of our licensed content in the amount of $67,000 and the disposal of certain licenses for an additional $95,000. As consideration for assets acquired in the acquisition of the Perreoradio suite of websites, we issued an aggregate of 100,000 shares of our common stock valued at $160,000. The Perreoradio assets were determined to have an indefinite useful life based primarily on the renewability of the proprietary domain names. Intangible assets with an indefinite life are not subject to amortization, but will be subject to periodic evaluation for impairment

We had a working capital deficit of $317,000 at June 30, 2006 and we continue to have recurring losses. In the past we have primarily relied upon loans from related parties to fund our operations and, to a lesser extent, revenues generated from licensing our film content, on a non-exclusive basis, to other distributors of Latino home entertainment content. We believe that future revenues combined with either loans or direct equity investments into the Company will be sufficient to fund our operations for the 12 months subsequent to June 30, 2006. We expect to undertake additional debt and equity financings to better enable us to grow and meet our future operating and capital requirements, however, there is no assurance that we will be successful in obtaining the necessary level of funding. On April 26, 2006 we entered into a placement agent agreement with Ault Glazer Bodnar Securities LLC ("AGB Securities") to assist us in raising additional debt and equity financings. We engaged AGB Securities as our non-exclusive placement agent in connection with a proposed best efforts private placement of up to $3 million of our common stock to prospective accredited investors. The placement agent agreement was to expire on September 30, 2006. On July 12, 2006, we were notified by AGB Securities that it had terminated its placement agent agreement with the Company. From July 13, 2006 through August 16, 2006, as a result of the absence of any funds being received through our placement agent agreement with AGB Securities, a series of loans totaling $140,000 were made to us primarily from Jay Rifkin, our Chairman and Chief Executive Officer. As consideration for the loans, we have issued demand promissory notes at a rate equal to the prime rate published in The Wall Street Journal from time to time to the date of payment in full. We cannot guarantee that Mr. Rifkin would be willing to further invest in the Company and if we are unable to secure additional sources of financing our operations would be negatively materially impacted.

During the three months ended June 30, 2006, the only equity financing that we entered into was a Subscription Agreement with our Chief Financial Officer in April 2006 relating to the issuance and sale of our common stock. We received gross proceeds of $55,000 from the issuance of 50,000 shares at a price of $1.10 per share. During the three months ended March 31, 2006 we entered into subscription agreements with unrelated accredited investors, pursuant to which we sold a total of 213,636 shares of our common stock at a price of $1.10 per share. We received gross proceeds of $235,000 from the sale of the stock. Additionally, on March 23, 2006, we entered into a Revolving Line of Credit Agreement (the "Revolving Line of Credit") with Ault Glazer Bodnar Acquisition Fund, LLC ("AGB Acquisition Fund"). The Revolving Line of Credit allows us to request advances totaling an aggregate of up to $150,000 from AGB Acquisition Fund. The initial term of the Revolving Line of Credit is for a period of six months and may be extended for one or more additional six-month periods upon mutual agreement of the parties. At June 30, 2006, we had borrowed $50,000 against the Revolving Line of Credit.

13

Operating activities used $264,000 of cash during the six months ended June 30, 2006, compared to using $94,000 during the six months ended June 30, 2005.

Cash used in investing activities for the six months ended June 30, 2006 and 2005 of $91,000, and $308,000, respectively, resulted primarily from the purchases of licensed Spanish language film content that was capitalized. During the six months ended June 30, 2006, purchases of licensed Spanish language film content was partially offset by proceeds of $65,000 from the disposal of certain licenses.

RESULTS OF OPERATIONS

REVENUES

We generated revenues of $224,000 and $668,000 for the three and six months ended June 30, 2006, respectively, as compared with revenues of $43,000 and $84,000 for the three and six months ended June 30, 2005, respectively. During the three and six months ended June 30, 2005 almost all of our revenues were generated through licensing agreements. The licensing agreements provide for us to receive advance payments as consideration for rights granted to third parties that distribute our licensed content. The advance payments are initially recorded as deferred revenue and subsequently recognized in income as royalties are earned upon shipment of licensed content to customers by the sub-licensor. Deferred revenue balances of $80,000 at June 30, 2006 and December 31, 2005 represent advance royalty payments that are expected to be earned over the subsequent twelve month periods.

During the three and six months ended June 30, 2006, we did not recognize any licensing revenue. All of our $224,000 and $668,000, respectively, in revenue represents revenue generated through the direct sales of our licensed content. We expect that direct sales, as a percentage of total revenue, will comprise the majority of revenues over the next year as we continue to focus our efforts on expanding our sales force. Further, we anticipate that licensing revenues will significantly be reduced or eliminated in future years as we shift our focus away from licensing agreements with third parties.

EXPENSES

Operating expenses, which were $3,041,000 during the six months ended June 30, 2006 as compared with $141,000 during the six months ended June 30, 2005, reflected an increase of $2,900,000. A significant component of the overall increase that occurred in operating expenses during the six months ended June 30, 2006, related to cost of sales of $419,000, an increase in salaries and employee benefits of $398,000 and stock based compensation expense from grants of nonqualified stock options to our employees and non-employee directors of $1,669,000 and. All outstanding stock-based compensation awards were granted by us at the per share fair market value on the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. For options granted during the six months ended June 30, 2006, the following assumptions were used: volatility 143% to 155%; expected life 5 years; risk-free interest rate 3.75%; dividend yield 0%. The costs associated with cost of sales, increases in salaries and employee benefits, and stock based compensation, which were insignificant or non-existent during the six months ended June 30, 2005, reflect a shift in our revenue mix from revenue generated primarily through licensing agreements which do not have any costs of sales to that of direct sales which not only have cost of sales but also the need of a sales force. The remaining operating expenses consisted of professional fees, rent expense, amortization expense and general and administrative expenses.

Professional fees were $250,000 higher during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 due to significant increases in amounts paid for legal, consulting and accounting fees. Legal fees comprised the majority of this increase, representing an increase of $212,000. Of this increase, $94,000 related to the amortization of prepaid legal fees to Sichenzia Ross Friedman Ference LLP ("Sichenzia") pursuant to the terms of the May 5, 2005 legal retainer agreement, as amended. We entered into this legal retainer agreement in anticipation of an increased level of legal work required by a public operating company. Under the terms of the amended agreement, Sichenzia agreed to represent us in connection with our continuing reporting requirements, as well as our general corporate matters. The term of the agreement is from May 1, 2005 through March 31, 2007. The remaining increase is attributed to work performed on content licensing agreements, an ongoing royalty audit, and acquisition related work, all of which were outside the scope of our agreement with Sichenzia.

Amounts paid to consultants increased by $13,000 related to an ongoing royalty audit that we initiated during the quarter ended March 31, 2006 combined with amounts paid to primarily two consultants. Amounts paid to the two consultants related to services in generating direct sales at a large retailer and operational services.

Rent expense increased by $41,000 during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 due in part to our relocation into commercial office space in August 2005, with base rent of $6,000 per month combined with periods of low rates of rent during the six months ended June 30, 2005.

Amortization expense increased by $11,000 during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 due to an increased number of license agreements.

General and administrative expense increased by $123,000 during the six months ended June 30, 2006 compared to the six months ended June 30, 2005 and is attributed to the overall expansion of the business during the year ended

December 31, 2005 combined with the financial constraints placed on us as a result of limited amounts of available working capital during the six months ended June 30, 2005.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

RISK FACTORS

Our business involves a high degree of risk. Potential investors should carefully consider the risks and uncertainties described below and the other information in this report before deciding whether to invest in shares of our common stock. Each of the following risks may materially and adversely affect our business, results of operations and financial condition. These risks may cause the market price of our common stock to decline, which may cause you to lose all or a part of the money you paid to buy our common stock.

RISKS RELATED TO OUR BUSINESS

WE HAVE A HISTORY OF LOSSES WHICH MAY CONTINUE AND WHICH MAY NEGATIVELY IMPACT OUR ABILITY TO ACHIEVE OUR BUSINESS OBJECTIVES AND OUR FINANCIAL RESULTS.

For the six-month periods ended June 30, 2006 and 2005, we generated revenues of $668,000 and $84,000, respectively, and incurred net losses of $2,373,000 and $57,000, respectively. At June 30, 2006, we had a working capital deficit of $317,000 and an accumulated deficit of $2,771,000. Our failure to increase our revenues significantly or improve our gross margins will harm our business. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. If our revenues grow more slowly than we anticipate, our gross margins fail to improve, or our operating expenses exceed our expectations, our operating results will suffer. If we are unable to sell or license our products at acceptable prices relative to our costs, or if we fail to develop and introduce on a timely basis new products from which we can derive additional revenues, our financial results will suffer.

OUR LICENSE REVENUES ARE DEPENDENT UPON THE REVENUES OF OUR CUSTOMERS. IF THE CONTENT WHICH WE LICENSE TO CUSTOMERS IS NOT USED IN VIDEOS WHICH BECOME POPULAR AMONG THE VIEWING PUBLIC, OUR REVENUES MAY DECLINE.

We generate revenue through either licensing agreements with third parties that distribute our licensed content or through direct sales. Our typical licensing agreement consists of a three to five-year contract that carries a 15% - 50% royalty on gross sales of licensed product. If the content which we license to customers is not used in videos which become popular among the viewing public, our revenues may decline.

OUR OPERATING SUBSIDIARY REBEL CREW FILMS HAS A LIMITED OPERATING HISTORY AND THEREFORE WE CANNOT ENSURE THE LONG-TERM SUCCESSFUL OPERATION OF OUR BUSINESS OR

THE EXECUTION OF OUR BUSINESS PLAN.

Our operating subsidiary Rebel Crew Films was organized under the laws of the State of California on August 7, 2002. Because Rebel Crew Films has a limited operating history, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies in evolving markets, such as the Latino home video distribution market in which we operate. While to date we have not experienced these problems, we must meet many challenges including:

- Establishing and maintaining broad market acceptance of our products and converting that acceptance into direct and indirect sources of revenue;
- Establishing and maintaining our brand name;
- Timely and successfully developing new content and films;
- Developing content that results in high popularity among the viewing public;
- Developing and maintaining strategic relationships to enhance the distribution and features of our video content.

Our business strategy may be unsuccessful and we may be unable to address the risks we face in a cost-effective manner, if at all. If we are unable to successfully address these risks our business will be harmed and we may experience a decrease in revenues.

IF WE ARE UNABLE TO LICENSE OR ACQUIRE COMPELLING CONTENT AT REASONABLE COSTS OR IF WE DO NOT DEVELOP COMPELLING CONTENT, THE NUMBER OF USERS OF OUR SERVICES MAY NOT GROW AS ANTICIPATED, OR MAY DECLINE, WHICH COULD HARM OUR OPERATING RESULTS.

Our future success depends in part upon our ability to aggregate compelling content and deliver that content through our online and other multi-media properties and programming and delivery technologies. We distribute some of the content that we license on our online properties, such as audio and video content from third parties. We have been providing increasing amounts of audio and video content to our users as reflected in the increase in direct sales of our content and we believe that users will increasingly demand high-quality audio and video content, such as music, film, and other special events. Such content may require us to make substantial payments to third parties from whom we license or acquire such content. For example, our entertainment properties rely on film producers and distributors, and other organizations for a large portion of the content available on our properties. Our ability to maintain and build relationships with third-party content providers will be critical to our success. In addition, as new methods for accessing and delivering content through media formats becomes available, including through alternative devices, we may need to enter into amended content agreements with existing third-party content providers to cover the new devices. We may be unable to enter into new, or preserve existing, relationships with the third parties whose content we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our content providers may increase the prices at which they offer their content to us, and potential content providers may not offer their content on terms agreeable to us. An increase in the prices charged to us by third-party content providers could harm our operating results and financial condition. Further, some of our content licenses with third parties may be non-exclusive. Accordingly, content providers and other media sources such as radio or television may be able to offer similar or identical content and technologies. This increases the importance of our ability to deliver compelling content and media technologies in order to differentiate from other businesses. If we are unable to license or acquire compelling content at reasonable prices, if other companies acquire develop and/or distribute content that is similar to or the same as that provided by us, or if we do not develop compelling content or media technologies, the number of users of our services may not grow as anticipated, or may decline, which could harm our operating results.

WE MAY INCUR SUBSTANTIAL COSTS ENFORCING OUR INTELLECTUAL PROPERTY RIGHTS AND ANY DIFFICULTY WITH ENFORCING SUCH RIGHTS MAY CAUSE OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION TO SUFFER.

The decreasing cost of electronic and computer equipment and related technology has made it easier to create unauthorized versions of audio and audiovisual products such as compact discs, videotapes and DVDs. Similarly, advances in Internet technology have increasingly made it possible for computer users to share audio and audiovisual information without the permission of the copyright owners and without paying royalties to holders of applicable intellectual property or other rights. Unauthorized copies and piracy of these products compete against legitimate sales of these products. Our revenues are derived from our licensed video content that is potentially subject to unauthorized copying and widespread, uncompensated dissemination on the Internet. If our proprietary video content is copied and distributed without authorization we may incur substantial costs enforcing our intellectual property rights. If we fail to obtain appropriate relief or enforcement through the judicial process, or if we fail to develop effective means of protecting our intellectual property, our results of operations and financial condition may suffer.

OUR CONTENT ASSETS MAY NOT BE COMMERCIALLY SUCCESSFUL WHICH WOULD CAUSE OUR REVENUES TO DECLINE.

Our revenue comes from the production and distribution of video content for use in Latino home video. The success of content offerings depends primarily upon their acceptance by the public, which is difficult to predict. The market for these products is highly competitive and competing products are often released into the marketplace at the same time. The commercial success of a video production depends on several variable factors, including the quality and acceptance of competing offerings released into the marketplace at or near the same time and the availability of alternative forms of entertainment and leisure time activities. Our business is particularly dependent on the success of a limited number of releases, and the commercial failure of just a few of these releases can have a significant adverse impact on results. Our failure to obtain broad consumer appeal in the Latino community could materially harm our business, financial condition and prospects for growth.

FAILURE TO PROPERLY MANAGE OUR POTENTIAL GROWTH POTENTIAL WOULD BE DETRIMENTAL TO HOLDERS OF OUR SECURITIES.

Since we have limited operating history and our total assets at June 30, 2006 consisted only of $23,000 in cash and total current assets of $483,000, any significant growth will place considerable strain on our financial resources and increase demands on our management and on our operational and administrative systems, controls and other resources. There can be no assurance that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employees and maintain close coordination among our technical, accounting, finance, marketing, sales and editorial staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems. We may fail to adequately manage our anticipated future growth. We will also need to continue to attract, retain and integrate personnel in all aspects of our operations. Failure to manage our growth effectively could hurt our business.

IF WE DO NOT MAINTAIN THE CONTINUED SERVICE OF OUR EXECUTIVE OFFICERS, WE MAY NEVER DEVELOP BUSINESS OPERATIONS.

Our success is dependent upon the continued service of our current executive officers. To date, we have entered into a written employment agreement with Jay Rifkin, our Chief Executive Officer, and Philip Gatch, our Chief Technology Officer, and none of our other executive officers. We do not have key man life insurance on any of our executive officers. While none of our executive officers currently has any definitive plans to retire or leave our company in the near future, any of such persons could decide to leave us at any time to pursue other opportunities. The loss of services of any of our executive management team could cause us to lose revenue.

RISKS RELATED TO OUR COMMON STOCK

OUR HISTORIC STOCK PRICE HAS BEEN VOLATILE AND THE FUTURE MARKET PRICE FOR OUR COMMON STOCK IS LIKELY TO CONTINUE TO BE VOLATILE. FURTHER, THE LIMITED MARKET FOR OUR SHARES WILL MAKE OUR PRICE MORE VOLATILE. THIS MAY MAKE IT DIFFICULT FOR YOU TO SELL OUR COMMON STOCK FOR A POSITIVE RETURN ON YOUR INVESTMENT.

The public market for our common stock has historically been very volatile. Over the past two fiscal years subsequent interim quarterly periods, the market price for our common stock as quoted on the OTC Bulletin Board has ranged from $0.06 to $2.05. The closing sale price for our common stock on August 14, 2006 was $0.55 per share. Any future market price for our shares is likely to continue to be very volatile. This price volatility may make it more difficult for you to sell shares when you want at prices you find attractive. We do not know of any one particular factor that has caused volatility in our stock price. However, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies. Broad market factors and the investing public's negative perception of our business may reduce our stock price, regardless of our operating performance. Further, the market for our common stock is limited and we cannot assure you that a larger market will ever be developed or maintained. The average daily trading volume of our common stock has historically been insignificant. Market fluctuations and volatility, as well as general economic, market and political conditions, could reduce our market price. As a result, this may make it difficult or impossible for you to sell our common stock or to sell our common stock for a positive return on your investment.

OUR COMMON STOCK IS SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

The SEC has adopted Rule 3a51-1 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, Rule 15g-9 requires:

o that a broker or dealer approve a person's account for transactions in penny stocks; and

- the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Item 3. Controls and Procedures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that all information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There was no change in our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

We are not a party to any pending legal proceeding, nor is our property the subject of a pending legal proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of our business. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On April 3, 2006, the Company sold 50,000 shares of common stock to William B. Horne, the Company's Chief Financial officer and current director, at a price of $1.10 per share, resulting in gross proceeds of $55,000. These securities were sold pursuant to Rule 506 promulgated under the Securities Act of 1933, as amended. These securities were sold in reliance upon the exemption provided by Section 4(2) of the Securities Act and the safe harbor of Rule 506 under Regulation D promulgated under the Securities Act. No advertising or general solicitation was employed in offering the securities, the sales were made to a limited number of persons, all of whom represented to the Company that they are accredited investors, and transfer of the securities is restricted in accordance with the requirements of the Securities Act.

On April 24, 2006, we purchased a software application known as ITunesBucks and its associated assets therewith (the "Assets") from EAI Technologies, LLC, a Virginia corporation. As consideration for the Assets, we issued EAI Technologies an aggregate of 138,182 shares of common stock. These securities were issued pursuant to the exemption from registration requirements provided by Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

Not applicable.

20

Item 4. Submission of Matters to a Vote of Security Holders.

The following proposals were submitted to shareholders at our annual meeting of stockholders held July 14, 2006 and were approved by a majority of the shares present at the meeting.

1. The authorization and approval to change the Company's domicile from Utah to Delaware effected by the merger of the Company, a Utah corporation, with and into, Digicorp, Inc., a newly formed wholly owned subsidiary of the Company that was incorporated under the Delaware General Corporation Law for the purpose of effecting the change of domicile. This proposal was approved. Results of the voting were as follows:

	No. of Shares			
	Shares For	Against	Abstain	Broker non-votes
Common Stock	26,435,446	6,400	200	0

2. To authorize and approve the Company's Stock Option and Restricted Stock Plan. This proposal was approved. Results of the voting were as follows:

	No. of Shares			
	Shares For	Against	Abstain	Broker non-votes
Common Stock	26,402,046	21,400	18,600	0

No other matters were submitted to a vote of security holders during the second quarter ended June 30, 2006.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit Number	Description
4.1*	Demand Promissory Note in the principal amount of $5,000 issued July 13, 2006 to William Horne
4.2*	Demand Promissory Note in the principal amount of $30,000 issued July 14, 2006 to Jay Rifkin
4.3*	Demand Promissory Note in the principal amount of $30,000 issued July 20, 2006 to Jay Rifkin
4.4*	Demand Promissory Note in the principal amount of $50,000 issued August 8, 2006 to Jay Rifkin
4.5*	Demand Promissory Note in the principal amount of $25,000 issued August 16, 2006 to Jay Rifkin
10.1*	Asset Purchase Agreement dated April 24, 2006 by and between Digicorp and EAI Technologies in connection with the $152,000 purchase of ITunesBucks and its associated assets
31.1	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act

31.2	Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act
32.1	Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code
32.2	Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code

* Filed herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGICORP

Date: August 21, 2006

By: /S/ Jay Rifkin

Jay Rifkin
Chief Executive Officer

Date: August 21, 2006

By: /S/ William B. Horne

William B. Horne
Chief Financial Officer